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FILE NO: 022001

November 16, 2022

VIA HAND DELIVERY

Hon. Bernard J. Logan, Clerk
State Corporation Commission
Document Control Center
Tyler Building – First Floor
1300 East Main Street
Richmond, Virginia 23219

Southwestern Virginia Gas Company
Application for a general increase in rates
Case No. PUR-2022-00196

Dear Mr. Logan:

Enclosed for filing in accordance with the State Corporation Commission's Rules Governing Utility Rate Increase Applications, 20 VAC 5-201-10, are an unbound original and twelve copies of the Application of Southwestern Virginia Gas Company for a general increase in rates.

The required electronic spreadsheet versions of the Company's filing schedules are being provided through an electronic dataroom to the Divisions of Public Utility Regulation and Utility Accounting and Finance.

In addition, the required copies of the Confidential and Public versions of Schedule 29 (Work Papers) and Schedule 40 (cost of service study) are being filed under separate cover and provided to the Divisions of Public Utility Regulation and Utility Accounting and Finance.

Copies of the Company's Application are being provided to local governmental officials under separate cover, in accordance with 20 VAC 5-201-10 J.

If you have any questions or need further information, please feel free to contact me.

2022 NOV 16 P 3: 59

HUNTON
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November 16, 2022
Page 2

Sincerely,



Timothy E. Biller

cc: William H. Chambliss, Esq.
Ms. Kimberly B. Pate
Mr. David Essah
C. Meade Browder, Jr., Esq.

221120166

**STATE CORPORATION COMMISSION
OF VIRGINIA**

APPLICATION OF)	
)	
SOUTHWESTERN VIRGINIA GAS)	CASE NO. PUR-2022-00196
COMPANY)	
)	
For a general increase in rates)	

APPLICATION AND REQUEST FOR WAIVERS

Pursuant to Chapter 10 of Title 56 of the Code of Virginia and the State Corporation Commission's ("Commission") Rules 20 VAC 5-201-10, *et seq.* and 5 VAC 5-20-80, Southwestern Virginia Gas Company ("SVG" or "Company") respectfully shows:

1. The name and post office address of the Applicant are Southwestern Virginia Gas Company, 208 Lester Street, Martinsville, VA 24112-2821. Counsel for the Applicant are Timothy E. Biller and Andrea D. Gardner, Hunton Andrews Kurth LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, VA 23219-4074.

2. The Commission last reviewed and approved an increase to SVG's rates in Case No. PUE-2012-00076, where the Company had sought an expedited increase in its rates. In that proceeding, the Commission approved an annual non-gas base revenue increase of \$156,701, effective for bills rendered on and after November 30, 2012, based on a test period ended June 30, 2012.¹ The rate of return earned by the Company for the 12 months ended June 30, 2022, when properly calculated to reflect ratemaking adjustments associated with a rate increase application, was only 3.60% on its rate base and only 0.80% on equity. This rate of return is

¹ Final Order, *Application of Southwestern Virginia Gas Company for an expedited rate increase*, Case No. PUE-2012-00076 (July 22, 2013).

below the overall rate base rate of return of 7.52% allowed by the Commission in Case No. PUE-2012-00076 based on a return on common equity of 9.5% (within the range of 9.0%-10.0%).

3. The Company's requests in this Application are supported by the testimony of the following witnesses, which are filed with this Application:

- James McClain II, President and Chief Executive Officer: Mr. McClain provides an overview of the Company's Application and the Company's need for a rate increase. Mr. McClain also supports the Company's revised rates and changes to the Company's General Rules and Regulations. In addition, Mr. McClain sponsors Schedule 41 to the Company's Application.
- Bernadette J. Stowe, Executive Vice President, Chief Financial Officer/Treasurer: Mrs. Stowe supports the Company's revenue requirement, supports the Company's proposed cost of capital and capital structure, and sponsors all Schedules other than Schedule 41 of the filing.

The Company's Proposals in this Application

4. The Company is seeking an increase in its rates that would produce additional annual revenues of \$916,334, representing an overall revenue increase of approximately 17.7%. This level of an annual increase in rates will allow the Company to recover the increases it has experienced in its costs of providing service to its customers. In addition, the increase will allow the Company the opportunity to earn a fair return on its common equity of 10.5% and meet the increasing costs of the debt that it has incurred to invest in its system as supported in the Company's testimony.

5. The Company proposes to implement the proposed increases through adjustments to both the fixed and volumetric components of customer bills. As discussed by Company witness McClain, placing some of the increase in the fixed charges will limit the impact of the proposed increase during the winter heating season and reduce the variability in customer bills, particularly given the recent increased gas costs experienced by the Company, which will likely continue to put upward pressure on customer bills, especially during the heating season.

6. As shown in Schedule 43 to the Company's Application, the proposed rates will result in a bill increase of \$7.88 (or 7.01%) for a residential customer using 100 Ccf of natural gas per month.

7. In addition to the proposed rate increases, the Company's Application proposes certain changes to its General Rules and Regulations. Specifically, the Company proposes the following changes:

- An addition to the Company's policy for connecting new customers to its system designed to confirm that the Company has authority to require that large customers locating in the Company's service territory bear responsibility for costs necessary to extend service to the customer's premises in appropriate situations;
- A revision to the Company's reconnection policy to address certain situations where customers may seek to reconnect service without paying outstanding bills; and
- Other revisions to provide more flexibility for customers to establish service and interact with the Company.

Request to Implement Proposed Rates and Revisions to the Rules and Regulations

8. The Company respectfully requests that it be permitted to implement its proposed rates and the revisions to its General Rules and Regulations on an interim basis, subject to refund, for bills rendered on and after March 31, 2023.² Implementing interim rates on this date will minimize the impact of the proposed rate increase on the Company's customers by implementing rates after the majority of the winter heating season while also providing the Company with the revenue that it requires to continue to provide service to its customers and meet its increasing financial obligations.

² While Va. Code §56-238 provides that the Commission "may suspend the enforcement of any and all of the proposed rates, tolls, charges, rules or regulations . . . for a period *not exceeding* 150 days," (emphasis added) the Company respectfully requests that the Commission allow the proposed rates to go into effect for bills rendered on or after March 31, 2023, on an interim basis, subject to refund.

COVID-19 Regulatory Asset

9. On April 21, 2020, certain utilities in Virginia filed a letter with the Commission seeking approval to create a regulatory asset to record incremental prudently incurred costs, including:

1) the incremental uncollectible expense incurred, 2) late payment fees suspended, 3) reconnection costs incurred with the billing suspended, 4) carrying costs, and 5) other incremental prudently incurred costs associated with the COVID-19 pandemic.³

On April 29, 2020, the Commission issued an order approving the deferral request, stating, “[a]ll natural gas, electric, water and sewer utilities subject to regulation by the Commission may record deferral of the above-referenced expenses on their books, subject to the provisions of the Financial Accounting Standards Board's Accounting Standards Codification 980.”⁴ The Commission went on to note that the Order has no ratemaking impact and that the deferred costs may be addressed in future ratemaking proceedings.⁵

10. Since March 2020, SVG has experienced financial impacts attributable to COVID-19, including incremental operating and maintenance expense and lost revenues associated with suspending late fees. The financial impact through June 30, 2022, has amounted to \$47,972. The Company seeks to recover these costs over a three-year period.

Request for Waivers

11. The Company hereby requests a waiver pursuant to 20 VAC 5-201-10-E for reporting information for Southwestern Virginia Energy Industries, Ltd. (the “Parent”) and

³ Request for Authority to Create Regulatory Asset at 2, *Commonwealth of Virginia*, ex rel. *State Corporation Commission*, Ex Parte: *Authority to create regulatory asset*, Case No. PUR-2020-00074, (filed April 21, 2020).

⁴ Order at 3, *Commonwealth of Virginia*, ex rel. *State Corporation Commission*, Ex Parte: *Authority to create regulatory asset*, Case No. PUR-2020-00074, 2020 S.C.C. Ann. Rep. 498, 495 (Apr. 29, 2020).

⁵ *Id.*

consolidated information of the Parent and the Company as required in Schedules 1, 2, 6, and 7.

The Company offers the following reasons for requesting this waiver:

- A. The Parent has historically never contributed to the raising of capital for the Company.
- B. The Parent has historically never assisted the Company in raising capital either by guaranteeing debt or in any other manner securing the Company's obligations.
- C. The Parent is a closely held corporation and not traded publicly.
- D. The Parent does not have financial statements prepared for public distribution.

12. The Company further requests a waiver of the requirement to prepare a jurisdictional cost of service study -- Schedule 40 A and B. The Company serves very few governmental non-jurisdictional customers. In fact, the only non-jurisdictional customers -- governmental offices and schools -- represent a very small portion of the Company's customers and its gas throughput. These non-jurisdictional customers pay for service on the basis of Commission-approved rates, so there is virtually no impact on the per customer cost of service and no economic justification to expend the money, time and effort to create a non-jurisdictional cost study.

13. Identical waivers were requested by the Company in numerous prior rate cases and annual informational filings ("AIF"), which the Commission has granted in each proceeding.⁶ The Company respectfully submits that granting the waivers continues to be

⁶ See, e.g., *Application of Southwestern Virginia Gas Company*, Case Nos. PUR-2021-00267 (Nov. 16, 2021); PUR-2020-00255 (Nov. 13, 2020); PUR-2019-00180 (Oct. 31, 2019); PUR-2017-00146 (Nov. 8, 2017); PUE-2016-00127 (Nov. 8, 2016); PUE-2015-00115 (Nov. 16, 2015); PUE-2014-00106 (Nov. 21, 2014); PUE-2013-00121 (Jan. 10, 2014); PUE-2012-00076 (Oct. 18, 2012); PUE-2011-00119 (Nov. 16, 2011); PUE-2010-00129 (Nov. 16, 2010); PUE-2007-00109 (Nov. 29, 2007); PUE-2006-00103 (July 30, 2007); PUE-2003-00426 (June 3, 2004).

appropriate for this Application and asks that the Commission grant the waivers for the reasons stated above.

14. Finally, to the extent necessary, the Company respectfully requests that the Commission waive the requirement to file an AIF under 20 VAC 5-201-30 for the 12 months ended June 30, 2022 ("2022 AIF"), which would have been due on October 28, 2022. The Company inadvertently failed to request a waiver for the 2022 AIF in a timely manner because it was in the process of preparing this Application. This Application, however, includes all required schedules under the Commission's rules applicable to rate cases and to AIFs, including the earnings test schedules for the 12 months ended June 30, 2022. This means that the Commission will be able to review all information that the Company would otherwise have provided in its 2022 AIF.

WHEREFORE, the Company requests that (i) it be permitted to place into effect its proposed rates and changes to its General Rules and Regulations on an interim basis, subject to refund, for bills rendered on and after March 31, 2023, (ii) the Commission grant the waivers of its rules requested in this Application, (iii) the Commission order appropriate notice be given and set this Application for hearing, and (iv) after such hearing the Commission affirm the justness and reasonableness of the proposed rates and changes to its General Rules and Regulations on a permanent basis.

Respectfully submitted,

SOUTHWESTERN VIRGINIA GAS
COMPANY

Dated: November 16, 2022

By 
Counsel

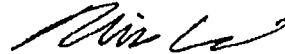
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CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of November 2022, a copy of the foregoing Application and Request for Waivers was either delivered by-hand or electronically to the following:

William Chambliss, Esq.,
State Corporation Commission,
Office of General Counsel,
Tyler Building, 10th Floor,
Richmond, Virginia 23219;

C. Meade Browder, Esq.
Office of the Attorney General,
202 N. 9th Street, 2nd Floor,
Richmond, Virginia 23219.



Counsel

**SUMMARY OF DIRECT TESTIMONY OF
James McClain II**

In my testimony, I:

- explain the Company's need for rate relief;
- support the Company's proposed changes to its rates; and
- support the proposed changes to the Company's General Rules and Regulations.

**SOUTHWESTERN VIRGINIA GAS COMPANY
CASE NO. PUE-2022-00196
DIRECT TESTIMONY
JAMES MCCLAIN II**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. James McClain II. My business address is 208 Lester Street, Martinsville,
3 Virginia 24112.

4 **Q. WHAT IS YOUR POSITION WITH THE APPLICANT IN THIS**
5 **PROCEEDING?**

6 A. I am President & CEO of Southwestern Virginia Gas Company ("SVG" or
7 "Company").

8 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND**
9 **EXPERIENCE WITH THE COMPANY.**

10 A. I obtained a Bachelor of Arts degree from Vanderbilt University in 1999. I joined
11 the Company in 2001 as Supervisor of Customer Relations. I was promoted to
12 Director of Community Relations in 2003, to Assistant Vice President in 2004, to
13 Vice President – Administration in 2006 , to Executive Vice President 2012, and
14 to my current position in 2015.

15 **Q. PLEASE EXPLAIN THE REQUESTED INCREASE IN RATES.**

16 A. The Company is seeking a rate increase that would produce additional annual
17 revenue of \$916,334 representing an overall increase in rates of approximately
18 17.7%.

1 **Q. WHY IS THE COMPANY SEEKING AN INCREASE IN RATES?**

2 A. The primary reason for seeking an increase in rates at this time is the continued,
3 increased cost of doing business since our last rate case. Over the last 10 years
4 since the Company last had to seek rate relief from the Commission, SVG has
5 worked hard to control costs in order to minimize the need to increase customer
6 rates. The current economic environment, however, has increased costs across the
7 economy and SVG is not immune from these cost increases. At the same time,
8 the Company has begun to bring new, large customers onto its system which
9 helps spread the impact of the increases over a larger customer base, minimizing
10 the impact on our existing customers.

11 **Q. ARE YOU SPONSORING ANY SCHEDULES OFFERED BY THE**
12 **COMPANY?**

13 A. Yes. I sponsor Schedule 41, the Company's proposed rates and tariffs of the
14 Company, and it is correct to the best of my knowledge and belief. The Company
15 requests that these rates go into effect on an interim basis, subject to refund, for
16 bills rendered on or after March 31, 2023.

17 **Q. IS THE COMPANY PROPOSING ANY CHANGES IN THE RATE**
18 **DESIGN IN THIS CASE?**

19 A. No, the Company is not proposing any changes in the basic structure of the rates,
20 which consist of a fixed customer charge and a variable charge. The rates
21 proposed by the Company in this proceeding will have the same structure. The

Company proposes to spread the increase between the fixed customer charges and the volumetric charges.

Q. WHY IS THE COMPANY PROPOSING INCREASES IN THE FIXED CUSTOMER CHARGE AND THE VOLUMETRIC CHARGE?

A. SVG has not had a rate increase in approximately ten years and the most recent change in rates resulted in a decrease to the customer charge from those approved by the Commission in Case No. PUE-2012-00076 to reflect the impact of the Tax Cuts and Jobs Act in 2018. Our current customer charges continue to be lower than those of the other natural gas utilities in the state.

In addition, much of the housing stock in the Company's service territory is older and less fuel efficient for heating purposes than comparable housing in other areas of the Commonwealth. Placing a significant amount of the rate increase into the customer charge will limit the impact that this rate increase will have on customers, particularly during the winter heating season. The Company, like any other entity that purchases natural gas, has seen increases to the costs it pays for natural gas. Although the Company passes these costs on to customers without any margin, these increased costs add additional increases to customers' bills based on their usage. Accordingly, placing more of the rate increase into the volumetric charges, particularly when combined with the increased gas costs, will not only increase the overall burden on customers during the heating season, but will also increase the variability in bills throughout the year. As a result, the

1 Company proposes minimizing this burden by increasing the fixed charge and
2 implementing a smaller increase to the volumetric charge at this time.

3 **Q. WHAT ARE THE NEW FIXED CUSTOMER CHARGES YOU ARE**
4 **REQUESTING?**

5 A. For the residential customers, the current customer charge is \$9.23 and the
6 proposed customer charge is \$14. There is a similar change being proposed in the
7 commercial and industrial rate schedules with the Schedule B customers
8 increasing from \$12.32 to \$25 and the Schedule C customers increasing from
9 \$38.66 to \$60. The transportation customers will see an increase in their
10 customer charge from \$193.29 to \$400. As shown in Schedule 40C sponsored by
11 Company witness Stowe, these customer charges are supported by the Company's
12 cost of service study.¹

13 **Q. CAN YOU EXPLAIN THE CHANGES THE COMPANY IS PROPOSING**
14 **TO ITS RULES AND REGULATIONS FOR PROVIDING SERVICE?**

15 A. Yes, the Company is proposing three main changes to its terms and conditions of
16 service:

- 17 • An addition to the Company's line extension policy to confirm the
18 Company has authority to enter into agreements with new customers to
19 guarantee revenue in appropriate circumstances to ensure that large
20 customers locating in the Company's service territory bear responsibility
21 for costs necessary to extend service to the customer's premises;

¹ In order to allow for ease of implementation and to make bills easier to understand for customers, the Company's proposed customer charges are rounded from those supported in Schedule 40C.

- A revision to the Company's reconnection policy to limit the ability of customers to inappropriately avoid paying outstanding bills; and
- Other revisions to provide more flexibility for customers to establish service and interact with the Company.

The proposed revisions are discussed below and included in the revised General Rules and Regulations provided in Schedule 41.

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED ADDITION TO ITS LINE EXTENSION POLICY.

A. The Company's service territory includes multiple large commercial and industrial sites that are currently under development or actively being promoted by local economic development officials to potential tenants. To meet the usage requirements of new customers constructing facilities in these sites or other locations in the Company's service territory, the Company may need to install additional distribution facilities in order to provide the requested service.² To ensure that the Company can make these additional investments while protecting its existing customers from bearing the costs of these investments, SVG proposes to add a new provision to Section 9.B. of its General Rules and Regulations, which is the portion of the Company's tariff that addresses the construction of line extensions by the Company to serve customers. Specifically, the proposed new language states as follows: "In addition, the Company may

² As noted in the Company's applications for debt financing in Case Nos. PUR-2021-00135 and Case No. PUR-2022-00143, the Company constructed a distribution pipeline in order for the Company to provide service to a new, large customer in the Commonwealth Crossing Business Centre in Henry County. This customer is investing over \$145 million in its facilities and is anticipated to create 126 new jobs in the Commonwealth.

1 require definitive and written guarantees of revenues from a customer, or
2 customer, or group of customers, in addition to any minimum payments required
3 by the rate schedules as may be necessary to justify the construction.”
4 This change is designed to confirm that the Company has authority under its tariff
5 to require, in appropriate situations, that customers guarantee that they will
6 generate a certain level of revenues to ensure that SVG’s other customers do not
7 bear the costs of the facilities needed to extend service to these large customers.
8 The proposed revision is substantially similar to language that is contained in the
9 Commission-approved tariffs of other utilities in Virginia.³

10 **Q. PLEASE EXPLAIN THE COMPANY’S PROPOSED REVISION TO ITS**
11 **RECONNECTION POLICY.**

12 A. Consistent with Virginia law, Section 21 of the Company’s General Rules and
13 Regulations currently provide it authority to disconnect service to a customer
14 when they fail to pay their bills. Often landlords in the Company’s service
15 territory may establish service in their names for service provided to tenants.
16 When the bills for service to these premises go unpaid, the Company may
17 disconnect service consistent with its tariff. In certain situations, however, the
18 Company may be requested to reconnect service to the same dwelling by the
19 tenant prior to the landlord paying the outstanding bills. The Company’s revision
20 ensures that it has clear authority to require that all outstanding bills for service at
21 a particular location are paid before the Company will reconnect service for an

³ For example, Virginia Natural Gas has similar language in the line extension policy in its tariff.

1 occupant of that location. Although the Company certainly will work with its
2 customers to ensure that they are treated fairly, the Company wants to ensure that
3 customers cannot avoid paying outstanding bills simply by seeking to reconnect
4 service in a new name.

5 **Q. PLEASE EXPLAIN THE OTHER CHANGES TO THE COMPANY'S**
6 **RULES AND REGULATIONS.**

7 A. The Company is updating its General Rules and Regulations to ensure that
8 customers are provided flexibility in establishing service and interacting with the
9 Company. For example, the Company has added explicit language that the
10 customers can execute service agreements electronically to avoid requiring
11 customers from having to travel to the Company's business office to establish
12 service.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes.

**SUMMARY OF DIRECT TESTIMONY OF
Bernadette J. Stowe**

In my testimony, I:

- support the Company's proposed revenue requirement;
- support the Company's proposed capital structure and cost of debt; and
- support the Company's proposed ROE of 10.5%.

**SOUTHWESTERN VIRGINIA GAS COMPANY
CASE NO. PUE-2022-00196
DIRECT TESTIMONY
BERNADETTE J. STOWE**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Bernadette J. Stowe and my address is 208 Lester Street, Martinsville, VA
3 24112.

4 **Q. WHAT POSITION DO YOU HOLD WITH SOUTHWESTERN VIRGINIA GAS**
5 **COMPANY?**

6 A. I am the Executive Vice President, Chief Financial Officer and Treasurer.

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

8 A. Yes, I have provided testimony in Case Nos. PUE-2003-00426; PUE-2006-00103; and
9 PUE-2012-00076.

10 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND**
11 **EXPERIENCE.**

12 A. I received my B. B. A. in Accounting from Radford University in December of 1995, and
13 my Virginia Certified Public Accounting Certificate on October 23, 1997. From January
14 1996 until September 1997, I was employed as a staff accountant with the CPA firm of
15 Ford, Dickerson and Cobbe, CPAs, PC. I joined Southwestern Virginia Gas Company in
16 October of 1997 as Staff Accountant. I was promoted to Supervisor of Accounting in
17 June 2000 and was named Assistant Treasurer in September of 2002. In July 2004, I was
18 promoted to Assistant Vice President- Finance and Human Resources and Assistant

1 Treasurer and was named Vice President- Finance and Human Resources/ Treasurer in
2 April 2006. In July 2015, I was promoted to Chief Financial Officer, VP-Human
3 Resources and Treasurer. In July 2020, I was promoted to my current position.

4 **Q. WHAT ARE YOUR RESPONSIBILITIES AS EXECUTIVE VICE PRESIDENT,**
5 **CHIEF FINANCIAL OFFICER AND TREASURER?**

6 A. I am responsible for supervising all accounting operations and data processing, which
7 includes payroll and customer accounts, maintaining all corporate books and financial
8 statements, along with all levels of taxes, monitoring cash flow and procuring financing. I
9 am also responsible for procuring all levels of insurance, for administering all employee
10 benefit programs, and for preparing all financial filings with the State Corporation
11 Commission.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. My testimony supports the calculation of the revenue requirement that the Company is
14 presenting in this proceeding, based on the test period, which is the 12 months ended
15 June 30, 2022 (the "Test Year"). In addition, I support the Company's proposed cost of
16 capital and capital structure.

17 **Q. ARE YOU SPONSORING SCHEDULES INCLUDED WITH THE**
18 **APPLICATION?**

19 A. Yes, I sponsor all the Schedules required by the Commission's Rules Governing Utility
20 Rate Increase Applications and Annual Informational Filing other than the tariff revisions
21 in Schedule 41, which is sponsored by Mr. James McClain. The Schedules I sponsor are
22 correct to the best of my knowledge and belief.

1 **Q. PLEASE EXPLAIN THE COMPANY'S 2022 RATE OF RETURN STATEMENT.**

2 A. Schedule 21 shows the operating results for the Test Year and ultimately the derivation of
3 the additional annual revenue requirement of \$916,334 that is required to allow the
4 Company the opportunity to earn 10.5% on its common equity, which is a fair return for
5 the Company as supported below. As demonstrated in Column 1 of Schedule 21, the
6 Company's total revenues in the Test Year were \$13,198,795, which, as shown on line
7 26, resulted in income available for common equity of \$513,809. As shown on line 32 of
8 Column 1, common equity per books was \$6,426,767 as of the year ended June 30, 2022,
9 which resulted in an unadjusted rate of return earned on common equity of 7.99%. The
10 Company's rate base was \$10,930,075, as shown on line 30 of Column 1 in Schedule 21,
11 which, based on the adjusted operating income of \$612,641, resulted in a rate of return on
12 rate base of 5.60%. Column 2 on Schedule 21 reflects the appropriate ratemaking
13 adjustments to show the Company's rate year expenses, as described in Schedule 25 of
14 the filing and discussed below in my testimony. Column 3 shows that the cumulative
15 results of these ratemaking adjustments reduce the rate of return on common equity to
16 0.80% and the overall return on rate base to only 3.60%. Both of these results highlight
17 the Company's need to increase rates to have the opportunity to earn a reasonable return.
18 As supported below, a fair and reasonable return for the Company at this time is 10.5%
19 on its common equity. Accordingly, in order to achieve this fair return, the Company
20 requires the opportunity to earn \$916,334 in additional annual revenue.

Ratemaking Adjustments

Q. SINCE THE TEST YEAR, HAS THE COMPANY GAINED ANY LARGE ADDITIONS TO ITS CUSTOMERS' LOAD?

A. Yes. In October 2022, a new industrial customer located at the Commonwealth Crossing Business Centre began taking service from the Company. Once this customer has its manufacturing lines fully operational, it will be utilizing 175,000 Mcf per year. The Company has included additional revenue to reflect the anticipated revenue from this customer in the rate year. This adjustment increases Test Year base rate revenue by \$356,098.

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS RELATED TO ITS PAYROLL EXPENSE?

A. Yes. The Company has made three adjustments to reflect the level of payroll that the Company anticipates in the rate year. Specifically, the Company intends to increase its starting salary for certain positions effective January 2023. At the same time, the Company will be making a percentage increase to existing employees in the same department, which will be in addition to the typical bonuses and/or salary increase for those employees.

Like most employers in the current market, the Company is having to compete with many other companies to find skilled workers to fill operational roles. The Company, however, requires skilled workers that can complete the necessary training to operate, maintain, and repair its distribution system. In order to ensure that it can attract the necessary skilled workers, the Company has determined that it must increase the starting salary for

these roles to better compete with other employers. In addition, to ensure that it retains its existing workforce, the Company is providing a corresponding increase to current operational employees to ensure that they are treated equally with new hires.

Accordingly, the Company has made adjustments to its rate year payroll to reflect these increases in payroll expense, as well as corresponding increases in the Company's Employee Stock Ownership Plan contributions and insurance. In total, these adjustments, along with the Company's typical merit increases, result in a \$201,890 increase to operations and maintenance expense.

Q. DID THE COMPANY MAKE ANY OTHER ADJUSTMENTS TO TEST YEAR REVENUES AND EXPENSES?

A. Yes. As detailed on Schedule 25, with support in the Company's workpapers in Schedule 29, the Company made certain other adjustments to both revenues and expenses, including adjustments previously approved by the Commission to weather normalize the Company's revenues and adjustments to account for lost customers. These adjustments include the following:

- Adjustment 2j to reflect the increased costs of contractors to perform right-of-way maintenance;
- Adjustment 2k to reflect increased costs related to the Company's franchise in the City of Martinsville;
- Adjustment 2l to reflect the cost of automated meter reading technology that the Company will deploy in its territory;

- 1 • Adjustment 2m to reflect rate year web-hosting expenses;
- 2 • Adjustment 2n to reflect increases in postage expense;
- 3 • Adjustment 2p to amortize its rate case expenses over a three-year period; and
- 4 • Adjustment 7b to adjustment interest expense on supplier refunds to reflect an
- 5 adjustment to align the interest calculation on supplier refunds to be consistent with
- 6 the Commission's prescribed rate for refunds of customer deposits.

7 **Q. DID THE COMPANY INCUR COSTS RELATED TO THE COVID-19**
8 **PANDEMIC?**

9 A. Yes. In Case No. PUR-2020-00074, the Commission allowed utilities in Virginia to
10 defer certain costs related to the COVID-19 pandemic. SVG, like other utilities, incurred
11 expenses related to protecting the workforce during the pandemic, such as personal
12 protection equipment and cleaning supplies for the operations department and paying a
13 contractor to enter customer homes to light appliances to avoid possible exposure to the
14 Company's limited number of operations employees. Other expenses were incurred to
15 allow office staff to work remotely. The Company also had lost revenue due to the
16 moratorium on disconnections and collecting normal past due fees for several months
17 during the pandemic. In total, the Company incurred \$47,972 in expenses and lost
18 revenue through June 30, 2022. The Company has included an adjustment to amortize
19 these expenses over a three-year period.

CAPITAL STRUCTURE

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED CAPITAL STRUCTURE FOR SETTING RATES

A. The Company used SVG's actual capital structure as of June 30, 2022 for rate making in this case with an adjustment to reflect recently issued long term debt, as reflected in Schedule 8. This capital structure was used because it reflects the Company's estimated capital structure that will be in place during the rate year. In particular, this capital structure reflects the \$2.5 million of long-term debt that the Company issued on October 12, 2022, which was approved by the Commission in Case No. PUR-2022-00143. With the issuance of this long-term debt, the Company's equity ratio has been reduced to 48.76%, resolving concerns raised by the Commission Staff in the Company's 2012 rate case regarding the level of equity in the Company's capital structure.

COST OF CAPITAL

Q. BASED ON THE COMPANY'S PROPOSED CAPITAL STRUCTURE, WHAT IS THE COMPANY'S COST OF CAPITAL?

A. The Company's weighted average cost of capital as adjusted for June 30, 2022 is 8.330% as reflected in the following table:

<u>Component</u>	<u>Weighting</u>	<u>Rate</u>	<u>Weighted Cost</u>
Short-Term Debt	0.31%	8.00%	0.025%
Long-Term Debt	50.55%	6.257%	3.163%
Preferred & Preference Stock	0.37%	6.00%	0.022%
Common Equity	48.76%	10.50%	<u>5.120%</u>
Total			8.330%

1 **Q. THE TABLE ABOVE SHOWS THE COMPANY'S COST OF COMMON EQUITY**
2 **IS 10.5%. HOW HAVE YOU ARRIVED AT 10.5% AS THE APPROPRIATE**
3 **COST OF COMMON EQUITY FOR THE COMPANY?**

4 A. As discussed in detail below, my analysis included review of the results of both
5 discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses and
6 incorporation of the impact of the size of the Company on investors' expectations for an
7 appropriate return. All of these factors show that a 10.5% cost of equity is appropriate for
8 establishing the Company's rates in this proceeding.

9 **COST OF DEBT**

10 **Q. WHAT HAVE YOU USED FOR THE COST OF DEBT IN THIS PROCEEDING?**

11 A. Schedule 8 reflect the Company's proposed cost of debt for the rate year in this
12 proceeding of 6.257%. This cost rate acknowledges that the Company's current
13 outstanding debt are generally set to vary with the changes in the Prime lending rate.
14 During the rate year, the interest rate on all three outstanding notes is set to increase to
15 the then-current Prime lending rate minus 1%. Based on recent trends in interest rates,
16 particularly in light of the Federal Reserve's stated goal to continue to increase interest
17 rates in order to control inflation,¹ the Company's cost of debt incorporates increases in
18 the interest rate on its outstanding loans, which the Company anticipates will increase
19 during the rate year to 7% in June 2023 for its first mortgage note and in October 2023
20 for its remaining two notes. In order to establish a reasonable cost of debt for the rate
21 year in this proceeding, the Company has weighted the cost rate for each issuance based

¹ See September 20-21, 2022 Minutes of the Federal Open Market Committee,
<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20220921.pdf> (last accessed November 15, 2022).

on the percentage of the rate year during which the interest rate will be in effect. This results in an overall cost of debt for the rate year of 6.257%.

COST OF EQUITY

Q. WHAT PRINCIPLES GENERALLY APPLY TO DETERMINING AN APPROPRIATE COST OF EQUITY FOR A UTILITY COMPANY?

A. In contrast to unregulated industries that are subject to competition in the market that governs the price they charge, public utilities are subject to regulation to govern their rates for providing service. It is well established that in setting these rates, the utility must be allowed to earn a fair rate of return on the capital that the utility has invested to serve its customers. The return must also be at a level that will permit the utility to attract capital investment at a reasonable cost.²

Ultimately, the goal of any cost of equity analysis is to determine the return that will allow a utility to compete for equity against all other companies of comparable risk. Accordingly, the cost of equity is determined based on what return an investor would expect to receive for investment in a company with comparable risk to the utility.

Q. WHAT METHODS DID YOU USE TO ESTABLISH AN INITIAL RANGE FOR THE APPROPRIATE COST OF EQUITY FOR A GAS UTILITY?

A. I performed both a DCF analysis and a capital asset pricing model ("CAPM") analysis to establish an initial range of the cost of equity.³ It is my understanding that these two models are frequently used in estimating a cost of equity range in regulatory proceedings

²These standards have been established by the U.S. Supreme Court in the oft-cited Hope and Bluefield cases. *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Bluefield Water Works Improvement Co. v. Public Serv. Comm'n*, 262 U.S. 679 (1922).

³ This analysis is similar to the analysis proposed by Roanoke Gas Company in Case No. PUR-2018-00013.

and are regularly evaluated in rate proceedings in Virginia. I applied these models to a proxy group of companies to calculate a rate of return on equity an investor in natural gas utilities would expect to receive.

Q. DESCRIBE YOUR PROXY GROUP.

A. My proxy group consists of the following companies:

Company	Ticker
Atmos Energy Corporation	ATO
Chesapeake Utilities Corporation	CPK
New Jersey Resources Corporation	NJR
NiSource Inc.	NI
Northwest Natural Gas Company	NWN
South Jersey Industries, Inc.	SJI
Spire Inc.	SR
ONE Gas, Inc.	OGS

These companies are all engaged primarily in the distribution of natural gas and have analyst research publicly available.

Q. BRIEFLY DESCRIBE THE DCF MODEL.

A. The DCF model is a method of determining the present value of an asset by discounting all future cash flows expected to be received from that asset. In the case of common stock, the future cash flows consist of dividends and a capital gain (or loss) when the stock is sold. These cash flows are then discounted based on the investor's required rate of return to arrive at the stock price. The DCF model can be rearranged to solve for any of the components. By making some simplifying assumptions, the DCF model can be expressed in the constant growth form below:

$$P = D / (K - g)$$

Where: P = Current stock price

D = Expected annual dividend per share

K = Investor's expected return on common equity (Discount rate)

g = growth rate

When solved for K, you get the following formula:

$$K = (D / P) + g$$

This equation, which is commonly referred to as the "constant growth" model, states that the investor's required return on equity (the discount rate) is the sum of the dividend yield and the earnings per share growth rate.

Q. WHAT STOCK PRICE (P) DID YOU USE FOR EACH COMPANY?

A. I used each companies' average daily closing stock price for the 30-, 90-, and 180-day trading period ending September 30, 2022. This method provides a blend of recent stock price information to conduct the analysis while minimizing the impact from dramatic price changes either positive or negative.

Q. HOW DID YOU CALCULATE THE EXPECTED DIVIDEND (D)?

A. I applied a growth rate to each Company's quarterly dividend to project an annual dividend level for the next 12 months. I also calculated the five-year average percentage increase in annual dividends for each company and then prorated the growth rate based on when the Company typically increases its dividend payment. This produces an appropriate estimate for the expected dividend payment over the next year because it uses actual dividend increases and considers the timing of dividend increases for each company.

1 Q. HOW DID YOU DETERMINE AN APPROPRIATE GROWTH RATE FOR EACH
2 COMPANY?

3 A. I used publicly available data for my growth rates. This data was obtained from Yahoo!
4 Finance and Zacks Investment Research (where it was available for the company). The
5 Yahoo! Finance growth rates project EPS growth per year for the next five years and the
6 Zacks Investment Research growth rates project EPS growth for the next three to five
7 years. The Company used these sources because they are readily available to investors
8 and the public in general to evaluate investment decisions.

9 Q. WHAT WERE THE RESULTS OF YOUR DCF ANALYSIS?

10 A. The DCF analysis produced a proxy group median ROE of 9.25% and a proxy group
11 average ROE of 9.44%. Attachment 1 to my testimony presents the results of this
12 analysis.

13 Q. BRIEFLY DESCRIBE THE CAPM.

14 A. The CAPM is a risk premium model that can be used to estimate an investor's required
15 return on equity based on the market risk-free return plus an equity risk premium adjusted
16 for a variability in each stock's investment risk relative to the market in general,
17 represented by the beta coefficient for each stock. The CAPM model is shown in the
18 equation below:

19
$$K = R_f + \beta (R_m - R_f)$$

20 Where: K = The investor's required ROE

21 R_f = Risk free rate

22 β = Beta coefficient of an individual security

1 R_m = Return on market

2 $R_m - R_f$ = Market risk premium

3 Along with the DCF model, the CAPM model is commonly used in regulatory rate
4 proceedings, including Virginia, to estimate a reasonable return on equity.

5 **Q. WHAT RISK-FREE RATE (R_f) IS USED IN YOUR CAPM ANALYSIS?**

6 A. I used the 30-year U.S. Treasury bond rate as my risk-free rate. At the time of my
7 analysis, the 30-year Treasury rate was 4.08%.

8 **Q. WHERE DID YOU SOURCE THE BETAS (β) FOR YOUR ANALYSIS?**

9 A. Two commonly used sources for betas are Value Line and Bloomberg Professional
10 Services. The Company does not subscribe to these paid services and, therefore, does not
11 have access to this information. The Company has instead calculated a composite beta
12 using information from recently filed ROE testimony in other natural gas rate cases in
13 Virginia. Both utility and Commission Staff witnesses were used in an effort to derive a
14 balanced beta. The composite betas and their sources can be found in Attachment 4 to
15 my Testimony.

16 **Q. WHY IS A COMPOSITE BETA APPROPRIATE IN THIS ANALYSIS?**

17 A. A composite beta is appropriate because it will provide a balanced view on the relative
18 risk of each stock. The derivation of betas is highly dependent on the method of
19 calculation and the inputs used, so use of a composite helps provide an accurate measure
20 of the relative risk without being wholly dependent on the analyst's specific calculation
21 methodology.

1 Q. WHAT MARKET RISK PREMIUM ($R_M - R_F$) IS USED IN YOUR CAPM
2 ANALYSIS?

3 A. I used a similar method as obtaining the betas described above. Using data from recent
4 natural gas utility rate cases filed by both utility and Commission Staff witnesses, I
5 calculated a composite market risk premium. I used a market risk premium of 8.11% in
6 my CAPM analysis as shown Attachment 3.

7 Q. WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

8 A. My CAPM analysis produced an estimated cost of equity of 11.01%. See Attachment 2
9 of my testimony.

10 Q. WHAT IS YOUR CONCLUSION REGARDING THE OVERALL PROXY GROUP
11 ROE RANGE BASED ON THESE ANALYSES?

12 A. Weighing both the DCF and CAPM results, I conclude that a reasonable ROE range for
13 the proxy group based on my analysis is between 9.3% to 10.3%. This is before any
14 adjustment as discussed below to reflect the relative risk of SVG to the proxy group.

15 SIZE RISK PREMIUM

16 Q. IS SIZE A FACTOR IN DETERMINING WHETHER YOU ARE COMPARING
17 FIRMS OF COMPARABLE RISK IN A COST OF EQUITY ANALYSIS?

18 A. Yes, consistent with the principles discussed earlier in my testimony, the point of a cost of
19 equity analysis is to determine investors' expectations for returns from firms of
20 comparable risk. As discussed below, size, particularly large size differences, impact
21 investors' expectations of the relative risk of different investments. Accordingly, when
22 the company being evaluated is significantly different in size from the proxy group

1 against which it is being compared, it is essential to consider the impact of this difference
2 on investors' expectations and reflect this in a size risk premium.

3 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY A SIZE RISK PREMIUM.**

4 A. A size risk premium is the additional return that investors require as a condition of
5 investing in a smaller company with riskier returns and higher investment costs.

6 **Q. WHAT GIVES RISE TO THE HIGHER RISK AND COSTS FOR INVESTORS IN
7 SMALLER COMPANIES?**

8 A. There are numerous risks and costs for investors in smaller companies, but for my
9 analysis I will focus on higher business risk and the lack of a market for investors in
10 small companies such as SVG, which results in higher transaction costs and increased
11 return risk.

12 **Q. CAN YOU PROVIDE EXAMPLES OF THE RECOGNITION OF HIGHER RISK
13 AND COSTS FOR INVESTING IN SMALLER COMPANIES?**

14 A. Yes, there is substantial precedent recognizing the higher risk of investing in small
15 companies throughout the country. For example, the Indiana Utility Regulatory
16 Commission ("IURC"), on August 16, 2017 in Cause No. 44880 – Midwest Natural Gas
17 Corporation, found a 10.1% return on equity appropriate after finding "an additional risk
18 premium is warranted in this case to account for the small size of Midwest, its lack of
19 publicly traded stock, and the difference in load served." This is a 130 basis point
20 adjustment to the 8.8% return originally recommended by the Indiana Office of Utility
21 Consumer Counselor in that proceeding.

1 Another example is from the Court of Chancery of Delaware. In re Emerging
2 Communications, Inc. Shareholder Litigation 2004 No. Civ. A 16415, Decided May 3,
3 2004, page 21 of the opinion of the court finds: “There is finance literature supporting the
4 position that stocks of smaller companies are riskier than securities of large ones and,
5 therefore, command a higher expected rate of return in the market. Our case law also
6 recognizes the propriety of a small firm/small stock premium in appropriate
7 circumstances. The issue, therefore, is not whether a small firm/small stock premium is
8 permissible theoretically, but whether the defendants have shown that a premium of 1.7%
9 is appropriate in this particular case. The Court concludes that the defendants have made
10 that showing” (internal footnotes omitted).

11 **Q. HAS THE COMMISSION RECOGNIZED THIS INCREASED RISK?**

12 A. Yes, for both Roanoke Gas Company (“Roanoke Gas”) and Appalachian Natural Gas
13 Distribution Company (“ANGD”), the Commission has explicitly recognized an increase
14 in each Company’s cost of equity due to their small sizes and related factors.
15 Specifically, for Roanoke Gas Company in Case No. PUR-2018-00013 the Commission
16 approved a higher ROE based on “Roanoke’s unique characteristics (including its size as
17 related to capitalization and number of customers).” In addition, in Case No. PUR-2018-
18 00015, the Commission approved an ROE for ANG D that was 70 basis points above the
19 bottom of the range of reasonable ROEs calculated in that proceeding similarly based on
20 “ANGD’s unique characteristics (including its relatively small size as related to
21 capitalization and number of customers, as well as the population and economic trends in
22 its service territory).” Accordingly, the Commission has recently confirmed that upward

1 adjustments to the calculated ROE are appropriate based on the differences between
2 smaller utilities and utilities in the proxy group.

3 **Q. PLEASE EXPLAIN WHY THE COMPANY HAS HIGHER BUSINESS RISKS**
4 **THAN LARGER UTILITIES AND WHY THAT MATTERS FOR DETERMINING**
5 **THE COST OF EQUITY CAPITAL.**

6 A. All companies have some degree of business risk. For estimating the Company's cost of
7 common equity capital, the degree of business risk of the Company relative to other
8 natural gas utilities becomes relevant. The proxy group has comparatively smaller
9 business risk because of their geographic profile, very large customer counts and
10 customer diversity. For example, although its Virginia operations are small, Atmos in
11 total operates in 8 states and has over 3.2 million customers. NiSource is a large,
12 diversified holding company with energy services offerings in 7 states and 3.9 million
13 customers. This is contrasted with SVG, which operates only in southwest Virginia, a
14 small service area in and around Martinsville, with approximately 4,300 customers. Of
15 these customers, approximately 4,230 of the customers are residential or commercial
16 customers, which account for only 30% of the Company's gas deliveries. The remaining
17 70% of the Company's deliveries are to only approximately 66 industrial and
18 transportation customers with the two largest customers receiving about 40% of the entire
19 system throughput. As the Company's history before the Commission highlights, its
20 revenues are extremely dependent on maintaining service to a relatively small number of
21 large customers. SVG is significantly smaller than Roanoke Gas and unlike both

1 Roanoke Gas and ANGD it does not have a parent that is either publicly traded or that
2 operates subsidiaries in multiple jurisdictions.

3 **Q. DOES SVG HAVE ACCESS TO CAPITAL ON SIMILAR TERMS TO OTHER**
4 **UTILITIES?**

5 A. No. As reflected in the Company's cost of debt calculation, the Company's cost of debt is
6 significantly higher than other, larger utilities. For example, the Commission Staff
7 recently recommended a ratemaking cost of debt of 4.599% for Columbia Gas Company,
8 the Virginia subsidiary of NiSource, in Case No. PUR-2022-00036. This is over 165
9 basis points lower than SVG's rate year cost of debt.

10 Although the Company has not had an equity investment in many years, given the
11 increase in its outstanding debt in the last year as well as the prospect of new, larger
12 customers coming on the system in one of the multiple industrial sites being developed in
13 its service territory, the Company likely will have to consider seeking out additional
14 sources of capital in order to continue to invest in serving new customers. Contrary to
15 the utilities in the proxy group as well as Roanoke Gas and ANGD, SVG does not have
16 publicly traded stock and does not have a parent that can raise capital on behalf of it and
17 other operating subsidiaries. This is likely to result in substantially higher transaction
18 costs if the Company is even able to find sources of capital that are willing to take on the
19 risks related to investing capital in SVG. To date, however, particularly given its
20 relatively low ROE and other risks, SVG has seen little interest in new sources of capital

1 seeking to invest in SVG.⁴ As a result, SVG requires a higher return than other larger
2 utilities in order to even begin to attract new investment in the Company. This is even
3 more important as more and more commercial and industrial customers look to locate in
4 southwestern Virginia, particularly in one of the Commonwealth's industrial mega-sites
5 currently in development in the Company's territory that will require significant
6 investment by the Company to establish service to these new, high-volume customers.

7 **Q. WHAT ADDITIONAL RISK PREMIUM DOES THE COMPANY PROPOSE**
8 **BASED ON ITS SIZE AND THE OTHER RISKS YOU HAVE IDENTIFIED?**

9 A. The results of the DCF and CAPM analysis discussed above result in a proxy group ROE
10 range of 9.3% - 10.3%. To recognize the Company's relative size and other risk factors
11 discussed above, the Company proposes a 70 basis point adjustment to this range,
12 resulting in a range of 10% to 11%, and that the ROE be set at the midpoint of this range,
13 10.5%, in order to establish rates in this proceeding. Based on the magnitude of size risk
14 premiums recognized in other jurisdictions, the Company feels a 70 basis point
15 adjustment is conservative, but reasonable in this proceeding based on the proxy group
16 ROE results and the Commission's recent precedent for small gas utilities. Importantly,
17 given the Company's proposed capital structure, the overall weighted cost of capital of
18 8.33% is quite conservative given that the Commission recently ruled that an overall
19 weighted cost of capital of 8.42% was reasonable for ANGD in Case No. PUR-2018-
20 00015. The Company believes 10.5% is a fair and reasonable return for use in setting

⁴ Indeed, as discussed in Case No. PUR-2021-00267, the Company worked with Henry County to obtain a municipal advance to support SVG's construction of the facilities to connect the Commonwealth Crossing Business Centre.

1 rates in this proceeding that will allow it to attract capital and to do so on reasonable
2 terms as it continues to invest in serving new, large customers in its service territory.

3 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

4 **A. Yes.**

**Southwestern Virginia Gas
 Discounted Cash Flow (DCF)**

	Proxy Group Median	Proxy Group Average
30-Day Avg Stock Price (pg 2)		
Zacks	9.43%	9.33%
Yahoo	9.21%	9.72%
90-Day Avg Stock Price (pg3)		
Zacks	9.30%	9.21%
Yahoo	9.15%	9.62%
180-Day Avg Stock Price (pg4)		
Zacks	9.25%	9.16%
Yahoo	9.14%	9.59%
Average	9.25%	9.44%

**Southwestern Virginia Gas
Discounted Cash Flow (DCF)**

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	30 Day			Zacks	Yahoo		
Company	Ticker	Avg Stock Price	Annualized Dividend	Dividend Yield	EPS Growth	5-Year Growth	ROE
Atmos Energy Corporation	ATO	\$ 113.18	\$ 2.9542	2.61%	7.50%	8.16%	10.77%
Chesapeake Utilities Corporation	CPK	\$ 125.93	\$ 2.2471	1.78%	N/A	7.00%	8.78%
New Jersey Resources Corporation	NJR	\$ 43.70	\$ 1.5886	3.64%	6.00%	6.00%	9.64%
NiSource Inc.	NI	\$ 28.75	\$ 0.9975	3.47%	6.80%	7.09%	10.56%
Northwest Natural Gas Company	NWN	\$ 47.44	\$ 1.9426	4.09%	4.30%	4.30%	8.39%
South Jersey Industries, Inc.	SJI	\$ 33.95	\$ 1.2719	3.75%	N/A	9.00%	12.75%
Spire Inc.	SR	\$ 68.39	\$ 2.8898	4.23%	5.00%	4.30%	8.53%
ONE Gas, Inc.	OGS	\$ 78.43	\$ 2.6415	3.37%	5.00%	5.00%	8.37%

Proxy Group Median
Proxy Group Average

3.55% 5.50% 6.50% 9.43% 9.21%
3.37% 5.77% 6.36% 9.33% 9.72%

[1],[5] Source: Yahoo! Finance, 09/01/2022 - 09/30/2022
[2] Source: Attachment I, page 5
[4] Source: Zacks Investment Research
[3] = [2]/[1]
[6] = [3] + [4]
[7] = [3] + [5]

**Southwestern Virginia Gas
Discounted Cash Flow (DCF)**

Company	Ticker	[1]		[2]		[3]		[4]		[5]		[6]		[7]	
		90 Day Avg Stock Price		Annualized Dividend		Dividend Yield		Zacks EPS Growth		Yahoo 5-Year EPS Growth		Zacks ROE		Yahoo ROE	
Atmos Energy Corporation	ATO	\$	114.56	\$	2.9542	2.58%	2.58%	7.50%	7.50%	8.16%	8.16%	10.08%	10.08%	10.74%	10.74%
Chesapeake Energy Corporation	CPK	\$	129.47	\$	2.2471	1.74%	1.74%	N/A	N/A	7.00%	7.00%	9.56%	9.56%	8.74%	8.74%
New Jersey Resources Corporation	NJR	\$	44.59	\$	1.5886	3.56%	3.56%	6.00%	6.00%	6.00%	6.00%	10.19%	10.19%	9.56%	9.56%
NiSource Inc.	NI	\$	29.45	\$	0.9975	3.39%	3.39%	6.80%	6.80%	7.09%	7.09%	8.13%	8.13%	10.48%	10.48%
Northwest Natural Gas Company	NWN	\$	50.70	\$	1.9426	3.83%	3.83%	4.30%	4.30%	4.30%	4.30%	9.04%	9.04%	8.13%	8.13%
South Jersey Industries, Inc.	SJI	\$	34.10	\$	1.2719	3.73%	3.73%	N/A	N/A	9.00%	9.00%	8.28%	8.28%	12.73%	12.73%
Spire Inc.	SR	\$	71.49	\$	2.8898	4.04%	4.04%	5.00%	5.00%	4.30%	4.30%	8.34%	8.34%	8.34%	8.34%
ONE Gas, Inc.	OGS	\$	80.56	\$	2.6415	3.28%	3.28%	5.00%	5.00%	5.00%	5.00%	8.28%	8.28%	8.28%	8.28%
Proxy Group Median						3.47%	3.47%	5.50%	5.50%	6.50%	6.50%	9.30%	9.30%	9.15%	9.15%
Proxy Group Average						3.27%	3.27%	5.77%	5.77%	6.36%	6.36%	9.21%	9.21%	9.62%	9.62%

[1],[5] Source: Yahoo! Finance, 07/01/2022 - 09/30/2022

[2] Source: Attachment 1, page 5

[4] Source: Zacks Investment Research

[3] = [2]/[1]

[6] = [3] + [4]

[7] = [3] + [5]

**Southwestern Virginia Gas
Discounted Cash Flow (DCF)**

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	180 Day						
Company	Ticker	Avg Stock Price	Annualized Dividend	Dividend Yield	Zacks EPS Growth	Zacks ROE	Yahoo ROE
Atmos Energy Corporation	ATO	\$ 114.57	\$ 2.9542	2.58%	7.50%	10.08%	10.74%
Chesapeake Energy Corporation	CPK	\$ 129.99	\$ 2.2471	1.73%	N/A		8.73%
New Jersey Resources Corporation	NJR	\$ 44.75	\$ 1.5886	3.55%	6.00%	9.55%	9.55%
NiSource Inc.	NI	\$ 29.86	\$ 0.9975	3.34%	6.80%	10.14%	10.43%
Northwest Natural Gas Company	NWN	\$ 51.14	\$ 1.9426	3.80%	4.30%	8.10%	8.10%
South Jersey Industries, Inc.	SJI	\$ 34.17	\$ 1.2719	3.72%	N/A		12.72%
Spire Inc.	SR	\$ 73.32	\$ 2.8898	3.94%	5.00%	8.94%	8.24%
ONE Gas, Inc.	OGS	\$ 83.05	\$ 2.6415	3.18%	5.00%	8.18%	8.18%
Proxy Group Median				3.45%	5.50%	9.25%	9.14%
Proxy Group Average				3.23%	5.77%	9.16%	9.59%

[1],[5] Source: Yahoo! Finance, 04/01/2022 - 09/30/2022

[2] Source: Attachment 1, page 5

[4] Source: Zacks Investment Research

[3] = [2]/[1]

[6] = [3] + [4]

[7] = [3] + [5]

0000000000

Exhibit No. _____
 Attachment 2
 Witness: BJS

**Southwestern Virginia Gas Company
 Capital Asset Pricing Model (CAPM)**

Company	Composite Beta	Risk Free Rate	Composite Market Risk Premium	Estimated Investor's Required ROE (K)
Atmos Energy Corporation	0.822	4.08%	8.11%	10.74%
Spire Inc.	0.837	4.08%	8.11%	10.87%
Northwest Natural Gas Company	0.817	4.08%	8.11%	10.70%
New Jersey Resources Corporation	0.953	4.08%	8.11%	11.81%
NiSource Inc.	0.850	4.08%	8.11%	10.97%
Chesapeake Utilities Corporation	0.750	4.08%	8.11%	10.16%
South Jersey Industries, Inc.	0.968	4.08%	8.11%	11.93%
ONE Gas, Inc.	0.838	4.08%	8.11%	10.88%
Average	0.854			11.01%

Exhibit No. _____
 Attachment 3
 Witness: BJS

**Southwestern Virginia Gas Company
 Equity Risk Premium**

Company	Case No.	Method	Equity Risk Premium	Average
Columbia Gas of Virginia Company Staff	PUR-2022-00036	Composite (Market Risk Analysis/SBBI Yearbook) Duff & Phelps 2022 SBBI Yearbook	8.03% 7.46%	8.03% 7.46%
Virginia Natural Gas Company (Rebuttal) Staff	PUR-2020-00095	Composite (Bloomberg /Value Line/Ibbotson) Ibbotson & Associates	9.79% 7.15%	9.79% 7.15%
				8.11%

Exhibit No. _____
 Attachment 4
 Witness: BJS

Southwestern Virginia Gas Company Composite Beta

Virginia Natural Gas
PUR-2020-00095

Columbia Gas of Virginia
PUR-2022-00036

	Company		Staff		Company	Staff		Composite Beta
	Bloomberg	Value Line	Value Line	Value Line		Value Line	Value Line	
NiSource Inc.	0.908	0.800	0.850	0.850			0.850	0.850
Atmos Energy Corporation	0.987	0.850	0.800	0.800	0.800	0.800	0.822	0.822
Spire Inc.	0.834	0.800	0.700	0.800	0.850	0.800	0.837	0.837
Northwest Natural Gas Company	0.963	0.950	0.800	0.800	0.850	0.800	0.817	0.817
New Jersey Resources Corporation			0.950	0.950		0.950	0.953	0.953
Chesapeake Utilities Corporation	0.971	1.050	0.800	0.800	1.050	0.750	0.750	0.750
South Jersey Industries, Inc.	0.991	0.800	0.800	0.800	0.800	0.800	0.968	0.968
ONE Gas, Inc.							0.838	0.838

Schedules

Schedule 1

EXHIBIT NO. _____
WITNESS: BJS
SCHEDULE 1

SOUTHWESTERN VIRGINIA GAS COMPANY
HISTORIC PROFITABILITY AND MARKET DATA
CASE NO. PUE-----

Consolidated Company Profitability and Capital Market Data	6/30/2018	6/30/2019	6/30/2020	6/30/2021	TEST PERIOD
A. RATIOS					
Return on Year End Equity	9.8%	9.7%	8.4%	8.8%	7.8%
Return on Average Equity	10.2%	9.9%	8.6%	8.9%	7.9%
Earnings Per Share	\$3.50	\$3.62	\$3.24	\$3.50	\$3.19
Dividends Per Share	\$1.88	\$2.00	\$2.08	\$2.08	\$2.16
Payout Ratio	53.7%	55.2%	64.2%	59.4%	67.7%
Market Price of Common Stock:					
Year's High					
Year's Low					
Average Price					
Dividend Yield on Common Stock:					
Price Earnings Ratio					
B. EXTERNAL FUNDS RAISED					
External Funds Raised - Debt:					
Dollar Amount Raised	none	none	none	none	none
Coupon Rate					
Bond Rating(s) (Rating Service)					
External Funds Raised - Preferred Stock:					
Dollar Amount Raised	none	none	none	none	none
Dividend Rate					
Preferred Stock Rating(s) (Rating Service)					
External Funds - Common Equity:					
Dollar Amount from Public Offering	none	none	none	none	none
Number Shares Issued					
Average Offering Price					
C. SUBSIDIARY DATA	N/A	N/A	N/A	N/A	N/A
Return on Year End Equity					
Return on Average Equity					
External Funds Raised - Bonds:					
Dollar Amount Raised					
Coupon Rate					
Bond Rating(s) (Rating Service)					
External Funds - Preferred Stock:					
Dollar Amount Raised					
Dividend Rate					
Preferred Stock Rating(s) (Rating Service)					
Equity Capital Transfer from Parent:					
(Dollar Amount - Net)					

Schedule 2

EXHIBIT NO.: _____
 WITNESS: BJS
 SCHEDULE 2
 PAGE 1 OF 2

SOUTHWESTERN VIRGINIA GAS COMPANY AND
 INTEREST AND CASH FLOW COVERAGE DATA
 CASE NO. PUE-----

Coverage Ratios and Cash flow Profile Data	6/30/2018	6/30/2019	6/30/2020	6/30/2021	TEST PERIOD
A. CONSOLIDATED COMPANY DATA	N/A	N/A	N/A	N/A	N/A

Interest Coverage Ratios:

Pre Tax Method

Cash Flow Coverage Ratios:

- a. Common Dividend Coverage
- b. Cash Flow Coverage of Constr. Expenditures
- c. Cash After Dividends Coverage of Constr. Expenditures

Data for Interest Coverage:

1. Net Income
2. Income Taxes
3. Interest on Mortgages
4. Other Interest
5. Total Interest
6. Earnings Before Interest and Taxes (1+2+5)

Data for Cash Flow Coverage:

7. Net Income
8. AFUDC
9. Amortization
10. Depreciation
11. Change in Deferred Taxes
12. Change in Investment Tax Credits
13. Preferred Dividends Paid
14. Cash Flow Generated (1-8+9+10+11+12-13)
15. Construction Expenditures
16. Common Dividends Paid

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EXHIBIT NO.: _____
 WITNESS: BJS
 SCHEDULE 2
 PAGE 2 OF 2

SOUTHWESTERN VIRGINIA GAS COMPANY
 INTEREST AND CASH FLOW COVERAGE DATA

Coverage Ratios and Cash flow Profile Data	6/30/2018	6/30/2019	6/30/2020	6/30/2021	TEST PERIOD
B. SUBSIDIARY DATA					
Interest Coverage Ratios:					
Pre Tax Method	16.3	7.9	7.4	10.9	8.0
Cash Flow Coverage Ratios:					
a. Common Dividend Coverage	4.7	3.8	3.6	2.6	2.7
b. Cash Flow Coverage- Constr. Expenditure	1.0	1.4	1.4	0.7	0.2
c. Cash After Dividends Coverage of Constr. Expenditures	0.8	1.0	1.0	0.4	0.1
Data for Interest Coverage:					
1. Net Income	566,011	585,759	524,772	566,230	516,808
2. Income Taxes	256,985	109,507	172,409	178,583	159,232
3. Interest on Mortgages	50,637	95,122	102,983	51,488	92,852
4. Other Interest	3,111	5,208	5,460	23,985	3,368
5. Total Interest	53,747	100,330	108,443	75,472	96,219
6. Earnings Before Interest and Taxes	876,743	795,597	805,624	820,285	772,260
Data for Cash Flow Coverage:					
7. Net Income	566,011	585,759	524,772	566,230	516,808
8. AFUDC					
9. Amortization	22,872	2,605	2,605	2,605	2,901
10. Depreciation	655,746	692,080	623,033	643,933	661,200
11. Change in Deferred Taxes	(381)	(111)	-	(338,293)	(223,586)
12. Change in Investment Tax Credits	171,351	(45,757)	55,633	-	0
13. Preferred Dividends Paid	3,000	3,000	3,000	3,000	3,000
14. Cash Flow Generated	1,412,599	1,231,576	1,203,043	871,475	954,323
15. Construction Expenditures	1,368,109	907,711	854,586	1,254,384	4,183,270
16. Common Dividends Paid	302,765	322,090	334,974	334,974	347,857

Schedule 3

EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 3

SOUTHWESTERN VIRGINIA GAS COMPANY
CAPITAL STRUCTURE AND COST OF CAPITAL STATEMENT-
PER BOOKS AND AVERAGE
CASE NO. PUE-----

	(1)	(2)	(3)	(4)	(5)	(6)
	6/30/2018	6/30/2019	6/30/2020	6/30/2021	TEST PERIOD	13-Month Average
A. CAPITAL STRUCTURE PER BALANCE SHEET (\$)						
Short Term Debt						
Customer Deposits	216,101	236,078	256,010	203,485	213,952	N/A
Other Current Liabilities	858,268	723,678	613,034	1,179,161	1,098,695	N/A
Long-Term Debt	2,500,000	2,400,000	2,300,001	2,200,001	4,533,334	N/A
Preferred and Preference Stock	50,000	50,000	50,000	50,000	50,000	N/A
Common Equity	5,745,318	6,005,988	6,192,786	6,421,043	6,586,993	N/A
Investment Tax Credits	111	-	-	-	-	N/A
Other Tax Deferrals	1,138,025	1,092,269	1,147,902	809,609	586,023	N/A
Other Liabilities	468,651	422,593	198,829	363,676	538,250	N/A
Total Capitalization	10,976,474	10,930,605	10,758,562	11,226,974	13,607,248	N/A
B. CAPITAL STRUCTURE APPROVED FOR RATEMAKING PURPOSES (\$)						
Short Term Debt	14231		11538	7692	42,308	42,308
Long-Term Debt	2,481,985	2,384,590	2,287,195	2,189,800	4,523,271	4,039,185
Preferred & Preference Stock	50,000	50,000	50,000	50,000	50,000	50,000
Job Development Credits	111	0	0	0	0	
Common Equity	5,745,318	6,005,988	6,192,786	6,421,043	6,586,993	6,494,839
Total Capitalization	8,291,645	8,440,577	8,541,519	8,668,535	11,202,573	10,626,332
C. CAPITAL STRUCTURE WEIGHTS FOR RATEMAKING PURPOSES (%)						
Short Term Debt	0.25%	0.00%	0.14%	0.09%	0.38%	0.40%
Long-Term Debt	29.93%	28.25%	26.78%	25.26%	40.38%	38.01%
Preferred & Preference Stock	0.60%	0.59%	0.59%	0.58%	0.45%	0.47%
Job Development Credits	0.00%					
Common Equity	69.29%	71.16%	72.50%	74.07%	58.80%	61.12%
Total Capitalization (100%)	100.08%	100.00%	100.00%	100.00%	100.00%	100.00%
D. COMPONENT CAPITAL COST RATES (%)						
Short Term Debt	5.50%	0.00%	4.75%	4.75%	4.75%	4.75%
Long-Term Debt	4.71%	4.65%	2.39%	2.39%	4.29%	4.29%
Preferred & Preference Stock	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Job Development Credits	8.04%					
Common Equity (Authorized)	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
E. COMPONENT WEIGHTED COST RA'						
Short Term Debt	0.01%	0.00%	0.01%	0.00%	0.018%	0.02%
Long-Term Debt	1.41%	1.31%	0.64%	0.60%	1.731%	1.63%
Preferred & Preference Stock	0.04%	0.04%	0.04%	0.03%	0.03%	0.03%
Job Development Credits	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Common Equity (Authorized)	6.58%	6.76%	6.89%	7.04%	5.59%	5.81%
Weighted Cost of Capital	8.04%	8.11%	7.57%	7.68%	7.361474%	7.48%

Schedule 4

EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 4

SOUTHWESTERN VIRGINIA GAS COMPANY
SCHEDULE OF LONG TERM DEBT, PREFERRED STOCK,
AND ANY OTHER COMPONENT OF RATEMAKING CAPITAL

	NET AMOUNT OUTSTANDING Test Period	% of TOTAL CAPITAL- IZATION	EMBEDDED COST RATE	ANNUALIZED COST
<u>First Mortgage Notes</u>				
Fidelity Bank Prime - 1%				
Due in monthly installments of				
\$16,667 plus interest.	\$4,523,271	40.38%	4.29%	\$193,901
<u>Preferred Stock</u>				
5,000 Shares Authorized, issued				
and outstanding par value \$10				
6% cumulative	\$50,000	0.45%	6.00%	\$3,000
<u>Common Equity</u>	\$6,586,993	58.80%	9.5%	\$625,764

Schedule 5

EXHIBIT NO.: _____
 WITNESS: BJS
 SCHEDULE 5

SOUTHWESTERN VIRGINIA GAS COMPANY
 SCHEDULE OF SHORT TERM DEBT, REVOLVING CREDIT
 AGREEMENTS, AND SIMILAR SHORT-TERM
 FINANCING ARRANGEMENTS

MONTH	BALANCE AT END OF MONTH	PERCENT OF TOTAL	INTEREST RATE	WEIGHTED RATE
JUN '21				
JUL				
AUG	550,000	1	4.75%	4.75%
SEP				
OCT				
NOV				
DEC				
JAN '22				
FEB				
MAR				
APR				
MAY				
JUN				
<hr/>				
TOTAL	550,000	100.00%		4.75%
	<u>/ 13</u>			
	<u>42,308</u>			

Schedule 6

20140103

EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 6
PAGE 1 OF 2

SOUTHWESTERN VIRGINIA GAS COMPANY

Annual Stockholders Report

SOUTHWESTERN VIRGINIA GAS COMPANY

(Wholly owned Subsidiary of Southwestern Virginia Energy Industries, Ltd.)

FINANCIAL REPORT

JUNE 30, 2022

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-3
FINANCIAL STATEMENTS	
Balance sheets	4-5
Statements of retained earnings	6
Statements of income	7
Statements of cash flows	8-9
Notes to financial statements	10-19
SUPPLEMENTARY INFORMATION	20
Schedules of property, plant, and equipment	21
Schedules of operating and maintenance expenses	22-23
Schedules of taxes other than income taxes	24



Harris, Harvey, Neal & Co., LLP

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Southwestern Virginia Gas Company
Martinsville, Virginia

Opinion

We have audited the accompanying financial statements of Southwestern Virginia Gas Company (a Virginia corporation), which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Virginia Gas Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southwestern Virginia Gas Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwestern Virginia Gas Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

MEMBERS

American Institute of Certified Public Accountants • Virginia Society of Certified Public Accountants
Offices in Danville, Chatham, Martinsville, and South Boston, Virginia

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southwestern Virginia Gas Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwestern Virginia Gas Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of property, plant and equipment, operating and maintenance expenses, and taxes other than income taxes are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Harris Harvey Neal & Co. LLP

Martinsville, Virginia
October 12, 2022

SOUTHWESTERN VIRGINIA GAS COMPANY

BALANCE SHEETS June 30, 2022 and 2021 See Independent Auditors' Report

ASSETS	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 754,601	\$ 1,445,027
Accounts receivable - trade (net)	958,087	577,047
Inventories	901,059	719,573
Prepaid expenses	6,797	9,300
Income tax receivable	116,555	-
Miscellaneous current and accrued assets	<u>15,558</u>	<u>20,164</u>
Total current assets	<u>2,752,657</u>	<u>2,771,111</u>
 PROPERTY, PLANT, AND EQUIPMENT		
Utility plant	24,927,995	20,907,090
Less accumulated depreciation	<u>(11,648,056)</u>	<u>(11,109,911)</u>
Book value of property, plant, and equipment	<u>13,279,939</u>	<u>9,797,179</u>
 OTHER ASSETS		
Other regulatory assets	83,621	48,165
Other preliminary survey	<u>4,358</u>	<u>2,030</u>
Total other assets	<u>87,979</u>	<u>50,195</u>
	<u><u>\$ 16,120,575</u></u>	<u><u>\$ 12,618,485</u></u>

SOUTHWESTERN VIRGINIA GAS COMPANY

BALANCE SHEETS June 30, 2022 and 2021 See Independent Auditors' Report

LIABILITIES AND STOCKHOLDERS' EQUITY	2022	2021
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 200,000	\$ 100,000
Accounts payable	991,215	506,503
Utility taxes collected	49,556	51,819
Accrued expenses	157,040	170,793
Consumers' meter deposits	213,952	203,484
Dividend payable	750	750
Income tax payable	-	432,324
Taxes accrued	16,608	16,655
Interest accrued	81	317
Total current liabilities	<u>1,629,202</u>	<u>1,482,645</u>
LONG-TERM DEBT NET OF CURRENT MATURITIES	<u>4,323,271</u>	<u>2,089,800</u>
DEFERRED CREDITS		
Deferred fuel costs	538,250	363,676
Customer Advance for Construction	<u>2,500,000</u>	<u>1,500,000</u>
Total deferred credits	3,038,250	1,863,676
DEFERRED TAXES	<u>492,858</u>	<u>711,321</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$10 par value, 6% cumulative; 5,000 shares authorized, issued and outstanding	50,000	50,000
Common stock - \$2.50 par value; 250,000 shares authorized; 161,045 shares issued and outstanding	402,613	402,613
Additional paid-in-capital	28,403	28,403
Retained earnings	<u>6,155,978</u>	<u>5,990,027</u>
Total stockholders' equity	<u>6,636,994</u>	<u>6,471,043</u>
	<u>\$ 16,120,575</u>	<u>\$ 12,618,485</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWESTERN VIRGINIA GAS COMPANY

STATEMENTS OF RETAINED EARNINGS

Years Ended June 30, 2022 and 2021

See Independent Auditors' Report

	<u>2022</u>	<u>2021</u>
Balance - beginning of year	\$ 5,990,027	\$ 5,761,771
Net income	516,808	566,230
Less dividends:		
Preferred stock (2022, \$0.60 per share; 2021, \$0.60 per share)	(3,000)	(3,000)
Common stock (2022, \$2.16 per share; 2021, \$2.08 per share)	<u>(347,857)</u>	<u>(334,974)</u>
Balance - end of year	<u>\$ 6,155,978</u>	<u>\$ 5,990,027</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWESTERN VIRGINIA GAS COMPANY

STATEMENTS OF INCOME
 Years Ended June 30, 2022 and 2021
 See Independent Auditors' Report

	2022	2021
OPERATING REVENUES		
Gas sales (net)	\$ 13,027,788	\$ 9,534,480
Forfeited discounts and miscellaneous service revenue	171,006	135,441
Total operating revenues	13,198,794	9,669,921
OPERATING EXPENSES		
Operating and maintenance expenses	11,631,418	8,061,501
Depreciation	605,247	587,071
Taxes, other than income taxes	182,096	192,770
Income taxes	159,232	178,583
Total operating expenses	12,577,993	9,019,925
Income from operations	620,801	649,996
OTHER INCOME (EXPENSES)		
Income (loss) from jobbing sales	214	(141)
Interest income	81	113
Other (expenses)	(5,168)	(5,661)
Total other (expenses)	(4,873)	(5,689)
INTEREST EXPENSE		
Interest on long-term debt	92,852	51,488
Amortization of debt expense	2,901	2,605
Other interest	3,367	23,984
Total interest expense	99,120	78,077
Net income	\$ 516,808	\$ 566,230

The accompanying notes are an integral part of the financial statements.

SOUTHWESTERN VIRGINIA GAS COMPANY

STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2022 and 2021
 See Independent Auditors' Report

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 516,808	\$ 566,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	605,247	587,071
Depreciation - transportation expense	55,953	56,861
Amortization of debt expense	2,901	2,605
(Increase) decrease in deferred taxes	(218,463)	(333,741)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - trade	(381,040)	(185,724)
Inventories	(181,486)	(310,703)
Prepaid expenses	2,503	2,373
Income tax receivable	(116,555)	-
Miscellaneous current and accrued assets	4,605	(9,821)
Other assets and deferred debits	(37,784)	(23,220)
Increase (decrease) in liabilities:		
Accounts payable	484,712	126,826
Utility taxes collected	(2,263)	10,985
Accrued expenses	(14,036)	7,688
Consumer meter deposits	10,468	(52,525)
Income tax payable	(432,324)	420,630
Deferred credits	1,174,574	1,664,848
Net cash provided by operating activities	1,473,820	2,530,383
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant	(4,183,269)	(1,254,384)
Cost of removal of original plant	(35,901)	(42,483)
Proceeds from the sale of land	74,984	-
Proceeds from the sale of equipment	226	3,925
Net cash (used in) investing activities	(4,143,960)	(1,292,942)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	2,500,000	-
Principal payments on long-term borrowing	(169,429)	(100,000)
Cash dividends paid	(350,857)	(337,974)
Net cash provided by (used in) financing activities	1,979,714	(437,974)

SOUTHWESTERN VIRGINIA GAS COMPANY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021
See Independent Auditors' Report

	<u>2022</u>	<u>2021</u>
Increase (decrease) in cash and cash equivalents	(690,426)	799,467
Cash and cash equivalents at beginning of year	<u>1,445,027</u>	<u>645,560</u>
Cash and cash equivalents at end of year	<u>\$ 754,601</u>	<u>\$ 1,445,027</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	<u>\$ 96,455</u>	<u>\$ 77,478</u>
Income taxes	<u>\$ 926,574</u>	<u>\$ 91,694</u>

The accompanying notes are an integral part of the financial statements.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of operations:

The utility has a certificate of public convenience and necessity from the State Corporation Commission of Virginia to furnish natural gas to the City of Martinsville, the County of Henry, and a small portion of western Pittsylvania County. The Company extends credit to its customers located in those areas. The Company also held a franchise agreement with the City of Martinsville effective through June 30, 2019, and has continued to operate under that agreement through the current fiscal year.

Basis of accounting:

The Company's regulated operations follow the accounting and reporting requirements of FASB ASC No. 980, "Regulated Operations" which provides that rate regulated utilities report assets and liabilities consistent with the economic effect of the way in which regulators establish rates. Accordingly, certain deferred charges and deferred credits have been reported in the financial statements that are designed to recover the costs of providing regulated service.

Billing cycle:

Revenues are recorded as billed to consumers on a monthly basis. Fuel costs are recorded as billed by the suppliers, with various adjustments passed to consumers over a period prescribed by the State Corporation Commission. The Company reads its meters late in each month and does not cycle bill. It bills at the end of each month. Energy delivered but unbilled at the end of the month is not recorded.

Cash equivalents:

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Allowance for uncollectible accounts:

The Company uses the allowance method to account for its bad debt. The allowance at June 30, 2022 and 2021 amounted to \$33,607 and \$39,234, respectively. Bad debt expense amounted to \$4,548 and \$4,585 for the years ended June 30, 2022 and 2021, respectively.

In response to COVID-19, the Company operated under a moratorium that prohibited utilities from disconnecting residential customers for non-payment of their natural gas service and from assessing late payment fees from March 16, 2020 until August 30, 2021; therefore, residential customers that would have normally be disconnected for non-payment were incurring charges for gas service until the moratorium ended, resulting in higher potential write-offs. The bad debts from that time period have been recorded since the moratorium ended.

CARES Act funds were provided to assist customers with past due balances. In December 2020, the Company received over \$15,000 in CARES Act funds and was able to apply the

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for uncollectible accounts (continued):

funds to eligible customer accounts during the third quarter of fiscal year ended 2021.

American Rescue Plan Act funds in the amount of \$44,888 were received in November 2021 for the same purpose. The Company applied those funds to eligible customer accounts during the second quarter of fiscal year ended 2022.

Inventories:

Inventories are stated at the lower of cost or market. Cost of inventories is determined primarily by the average cost method.

Property, plant, equipment, and depreciation:

The Company applies the group method of accounting, where the costs of like assets are aggregated and depreciated by applying a rate based on the average expected useful life of the assets on a straight-line basis. Depreciation rates for the years ended June 30, 2022 and 2021 were as follows:

	2022	2021
Transmission Plant	1.44% to 6.59%	2.22% to 6.67%
Distribution Plant	2.46% to 3.49%	2.36% to 6.40%
General Plant	1.38% to 16.36%	2.86% to 20.00%

Depreciation expense amounted to \$605,247 and \$587,071 for the years ended June 30, 2022 and 2021, respectively.

It is the policy of the Company, in conformity with the prescribed system of accounts, to charge the cost of current repairs and minor replacements to the appropriate operating expense and clearing accounts and to capitalize the cost of renewals and betterments. The original cost of assets retired, or otherwise disposed of, and the cost of removal less salvage are charged to the accumulated provision for depreciation. Allowance for cost of funds used during construction is not added to plant accounts.

Concentration of credit risk:

At June 30, 2022, cash consists of deposits in checking accounts and money market accounts, all insured up to \$250,000 per depositor, per insured bank. The Corporation maintains cash balances at one financial institution insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Money market investment shares are maintained at one financial institution and are covered by the Securities Investor Protection Corporation (SIPC) up to \$500,000. At June 30, 2022 and 2021, the Company's uninsured cash balances totaled \$523,003 and \$1,216,056, respectively. There were no uninsured securities balances either year.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Business and credit concentrations:

The primary business of the Company is the distribution of natural gas to residential, commercial, and industrial customers in its service territories.

Regulated sales to three individual customers each accounted for more than 5% of total revenue in any period or amounted to more than 5% of total accounts receivable.

Southwestern Virginia Gas is served directly by one primary pipeline. This pipeline provides 100% of the natural gas supplied to the Company's customers. Depending upon weather conditions and the level of customer demand, failure of this transmission pipeline could have a major adverse impact on the Company.

Amortization:

Costs incurred during 2018-19 involving a depreciation study were capitalized and amortized over five years beginning July 2019.

Costs incurred during 2021-22 involving an affiliate transaction filing were capitalized and amortized over five years beginning March 2022.

Income taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the dates of enactment.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 2. Inventories

Inventories consist of the following components at June 30, 2022 and 2021:

<u>Description</u>	<u>Method of Valuation</u>	<u>2022</u>	<u>2021</u>
Gas stored underground	Average cost	\$ 145,075	\$ 131,887
Pipe and fittings	Average cost	752,567	580,266
Stores	FIFO	3,417	7,420
Total inventories		<u>\$ 901,059</u>	<u>\$ 719,573</u>

The pipe and fittings inventory is held for use in the operation, construction, and maintenance of the utility plant in service, and not for resale.

Note 3. Other Deferred Charges

Other deferred charges consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Other regulatory assets	\$ 83,621	\$ 48,165
Other preliminary survey	4,358	2,030
Total other deferred charges	<u>\$ 87,979</u>	<u>\$ 50,195</u>

In April 2020, the SCC issued an order allowing regulated utilities in Virginia to defer certain incremental, prudently incurred costs associated with the COVID-19 pandemic and to apply for recovery at a future date. Formal guidance has not been provided by the SCC at this time. The Company began deferring certain COVID-19 related costs during fiscal 2021 and plans to seek recovery of these deferrals in the upcoming rate case.

Note 4. Regulatory Assets

The Company's regulated operations follow the accounting and reporting requirements of FASB ASC No. 980, Regulated Operations. The economic effects of regulation can result in a regulated company deferring costs that have been or are expected to be recovered from customers in a period different from the period in which the costs would be charged to expense by an unregulated enterprise. When this situation occurs, costs are deferred as assets in the balance sheet (regulatory assets) and amortized into expense over periods when such amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for current collection in rates of costs that are expected to be incurred in the future (regulatory liabilities). In the event the provisions of FASB ASC No. 980 no longer apply to any or all regulatory assets or liabilities, the Company would write off such amounts and include the effects in the income statement in the period which FASB ASC No. 980 no longer applied.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 4. Regulatory Assets (Continued)

Regulatory assets included in the Company's accompanying balance sheets are as follows:

	2022	2021
OTHER ASSETS:		
Other regulatory assets:		
Depreciation study	\$ 3,970	\$ 5,955
Affiliate transaction filing	31,679	-
Unbilled past due fees	27,670	22,805
COVID-19 expenses	20,302	19,405
Total regulatory assets	<u>\$ 83,621</u>	<u>\$ 48,165</u>

The Company is currently amortizing the costs of the depreciation study and affiliate transaction filing over five year periods. Unbilled past due fees and COVID-19 expenses will be written off at a later date.

The Company had no regulatory liabilities included in its accompanying balance sheets.

Note 5. Notes Payable and Long-Term Debt

Long-term debt consists of the following at June 30, 2022 and 2021:

	2022	2021
Note payable - Fidelity Bank, dated May 30, 2018, payable in 83 monthly installments beginning August 1, 2018 of principal in the amount of \$8,333.33 plus interest at 3.0%, which is reset annually and follows prime minus 1.0%. A balloon payment of \$1,814,173.02 including principal and interest is due June 12, 2025. Note is secured by deed of trust on real property and blanket lien on all company assets.	\$ 2,100,001	\$ 2,200,001
Note payable - Fidelity Bank, dated September 30, 2021, payable in 83 monthly installments beginning November 1, 2021 of principal in the amount of \$8,333.33 plus interest at 2.25%, which is reset annually and follows prime minus 1.0%. A balloon payment of \$1,811,724.24 including principal and interest is due October 1, 2028. Note is secured by deed of trust on real property and blanket lien on all company assets.	2,433,333	-
	4,533,334	2,200,001
Less current maturities	(200,000)	(100,000)
Long-term debt net of current maturities	4,333,334	2,100,001

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 5. Notes Payable and Long-Term Debt (Continued)

	2022	2021
Less unamortized debt issuance costs	<u>(10,063)</u>	<u>(10,201)</u>
Long-term debt net of current maturities and debt issuance costs	<u>\$4,323,271</u>	<u>\$2,089,800</u>

Aggregate maturities required on long-term debt at June 30, 2022 are due in future years as follows:

June 30, 2023	\$ 200,000
June 30, 2024	200,000
June 30, 2025	200,000
June 30, 2026	200,000
June 30, 2027 and thereafter	<u>3,733,334</u>
	<u>\$4,533,334</u>

In 2017, the Company retroactively adopted the requirements of FASB ASC 835-30 for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the balance sheet as a direct deduction from the face amount of the debt. Previously, such costs were shown as unamortized debt expense.

The Company continues to reflect amortization of debt issuance costs as interest expense, in accordance with the new guidance.

This change had no effect on previously reported earnings or stockholders' equity.

Note 6. Commitments and Contingencies

The outbreak of COVID-19 continues to have an impact on businesses and individuals throughout the nation and the world. The COVID-19 pandemic forced all levels of government, as well as businesses and individuals, to take actions to limit the spread of the disease. This resulted in a significant disruption to normal activities as many businesses either shut down or are operating on a limited basis resulting in higher unemployment and government imposed social distancing mandates over the past year. With the increased distribution and acceptance of vaccines, many restrictions imposed to limit the spread and transmission of the virus have been reduced or eliminated allowing for some return to normalcy.

The existence of variant strains of the virus and reduced focus on safety measures may lead to a resurgence in infections and could result in additional restrictions. The extent to which COVID-19 will affect the Company over future periods will depend on ongoing developments, which are highly uncertain and cannot be reasonably predicted, including the continued easing of restrictions to businesses and individuals, the potential for a resurgence of the virus, including variants, and the effectiveness of and extent to which the population is vaccinated, among other factors.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 7. Lease Commitments and Rental Expense

The Company entered into a lease agreement for its office building dated October 1, 2008, with a twenty-year term and two ten-year options. The leases are accounted for as operating leases. Rental expense for both the years ended June 30, 2022 and 2021 amounted to \$56,247.

Minimum annual lease payments for the next five years are as follows:

June 30, 2023	\$ 56,247
June 30, 2024	56,247
June 30, 2025	56,247
June 30, 2026	56,247
June 30, 2027	56,247
	<u>\$ 281,235</u>

Note 8. Line of Credit

On January 6, 2022, the Company renewed a \$1,000,000 line of credit with Fidelity Bank originally dated October 29, 2012. Interest is accrued at a variable rate based on the Prime Rate established from time to time by Fidelity Bank and will not exceed the maximum rate of 16.00 % per annum or fall below the minimum rate of 4.75% per annum. The balance on the line of credit was \$0 at both June 30, 2022 and 2021.

Note 9. Related Party Transactions

Three officers and directors of the Company have formed a partnership which owns and leases the office building to the Company under the leases described in Note 5. The building is located on land owned by the Company. The Company received \$5,500 per year as ground rent under a long-term lease during both the years ended June 30, 2022 and 2021, respectively.

Note 10. Deferred Fuel Costs

Fuel adjustments result from several different sources. All fuel adjustments are returned or billed to the customers via an Actual Cost Adjustment ("ACA") which refunds the amount based on a per unit basis over 12 months. Since the total units are estimated in advance, there is always a remaining amount either positive or negative at the end of twelve months.

In addition to leftover Actual Cost Adjustment amounts, deferred fuel adjustments result from supplier refunds and monthly Purchased Gas Adjustments ("PGA") which compare the cost of gas billed (based on pre-approved per unit amounts) against the cost of gas used. These PGA amounts are accumulated and at year end rolled over into the new ACA. Supplier refunds are also accumulated at year end and rolled over into the ACA, unless they are a large amount (greater than \$.001 per CCF) in which case they are refunded to the customer over a twelve-month period beginning the second month after receipt.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 10. Deferred Fuel Costs (Continued)

The balance of deferred fuel costs consisted of the following at June 30, 2022:

Remaining balance of June 2021 refund	\$ 5,803
Remaining balance of June 2022 ACA	161,780
2022 Purchased gas adjustments	<u>370,667</u>
Total deferred fuel costs	<u>\$ 538,250</u>

The balance of deferred fuel costs consisted of the following at June 30, 2021:

Remaining balance of June 2020 refund	\$ 40,634
Remaining balance of June 2021 ACA	72,084
2021 Purchased gas adjustments	<u>250,958</u>
Total deferred fuel costs	<u>\$ 363,676</u>

Note 11. Customer Advance for Construction

The Company received a \$1,500,000 advance from Henry County in March of 2021 and an additional \$1,000,000 in January of 2022 in support of constructing natural gas facilities to serve Commonwealth Crossing Business Centre. They received a final advance of \$2,000,000 in July of 2022.

Note 12. Employee Stock Ownership Plan

The Company's parent, Southwestern Virginia Energy Industries, Ltd., sponsors an Employee Stock Ownership Plan for its employees and its subsidiaries. The purpose of the Plan is to enable full-time employees who are at least 19 years of age and have been employed for at least 1 year to acquire stock ownership in the Company. Contributions to the Plan from the Company are based upon eligible compensation of Plan participants. The Company's contributions to the Plan for the years ended June 30, 2022 and 2021 were \$90,926 and \$88,427, respectively. The Plan is not a leveraged plan and the contributions for 2022 and 2021 were included in expense.

In the event of retirement, disability, or death of a plan participant, the Plan is required to purchase his or her stock and distribute 100% of the account balance in accordance with the Plan document. At June 30, 2021, the Plan held 9,250 shares all of which have been allocated to plan participants. The fair value of the shares held by the Plan's participants amounted to approximately \$1,836,125 and \$1,789,875 at June 30, 2022 and 2021, based on valuation as of June 30, 2021 and 2020, respectively.

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 13. Retirement Plan

The Company adopted a 401(k) retirement plan effective July 1, 1997. The plan covers all employees who are at least 19 years of age with one or more years of service. Under the Plan, the Company may, at its discretion, make matching contributions, which are determined annually. The Company may also make a discretionary contribution to the plan, which is also determined annually. The Company's matching contributions for the years ended June 30, 2022 and 2021 were \$76,530 and \$90,170, respectively. No additional discretionary contributions were made.

Note 14. Income Taxes

The Company has consented to file for tax purposes as part of a consolidated group. Accordingly, the amount of tax reported by the Company results from an allocation of the consolidated income tax. The method used to allocate the consolidated income tax results in the effective consolidated tax rate of 21% being applied to the net income of the Company, as adjusted for various book and tax timing differences.

The Company revalued its deferred tax assets and liabilities to reflect the new federal tax rate in the year ended June 30, 2018. Under the provisions of ASC 740, the corresponding adjustment to deferred income taxes generally flows through to income tax expense. For rate regulated entities, these excess deferred taxes were originally recovered from its customers based on billing rates derived using a federal income tax rate of 34%. Therefore, the adjustment to the net deferred tax liabilities of the Company, to the extent such net deferred tax liabilities are attributable to rate base or cost of service for customers, are refundable to customers. The Company established regulatory liabilities in the amounts of \$433,231 and \$56,911 and a regulatory asset of \$109,747 related to these excess deferred income taxes. The \$56,911 was a temporary liability and was written off in the first year while the other regulatory liability and asset are being amortized over their estimated average remaining life of 22.53 years.

Net deferred tax liability consists of the following components as of the years ended June 30, 2022 and 2021:

	2022	2021
Deferred tax assets:		
Receivable allowance	\$ 8,531	\$ 9,965
Deferred - gross up tax	93,165	98,289
Customer advance for construction	643,500	386,100
	<u>745,196</u>	<u>494,354</u>
Deferred tax liabilities:		
Property, plant and equipment	856,895	806,095
EDIT Regulatory Liabilities	381,159	399,580
	<u>1,238,054</u>	<u>1,205,675</u>
Net deferred tax liability	<u>\$ 492,858</u>	<u>\$ 711,321</u>

SOUTHWESTERN VIRGINIA GAS COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 14. Income Taxes (Continued)

The deferred tax amounts mentioned above have been classified on the accompanying balance sheets as of June 30, 2022 and 2021 as follows:

	2022	2021
Noncurrent assets	\$ -	\$ -
Noncurrent liabilities	492,858	711,321
Net deferred tax liability	<u>\$ 492,858</u>	<u>\$ 711,321</u>

The provision for income taxes charged to operations for the years ended June 30, 2022 and 2021 consists of the following:

	2022	2021
Current tax expense	\$ 377,695	\$ 512,324
Deferred tax (benefit) expense	(218,463)	(333,741)
Income tax provision	<u>\$ 159,232</u>	<u>\$ 178,583</u>

To simplify the presentation of deferred income taxes, the Company has prospectively implemented the amendments in ASU 2015-17 which require deferred tax liabilities and assets to be netted and classified as noncurrent in a classified balance sheet. Prior periods were not retrospectively adjusted.

Note 15. Subsequent Events

Management has evaluated subsequent events through October 12, 2022, the date which the financial statements were available for issue.

The company previously entered into an agreement to construct assets necessary to provide natural gas to Commonwealth Crossing Business Centre, an industrial park located in the southern portion of Henry County. Natural gas will be supplied to the industrial park via a new interconnect with the East Tennessee Natural Gas Pipeline. The project was anticipated to cost between \$8.5 million and \$9.0 million. The cost of the project was funded by two \$2.5 million loans from Fidelity Bank and additional municipal construction advances from Henry County IDA. The project was completed in October of 2022. Crown Holdings, Inc. is constructing a manufacturing facility in the industrial park and will be the first recipient of natural gas service. The facilities will be able to provide sufficient natural gas to Crown Holdings, Inc. and future tenants of Commonwealth Crossing Business Centre.

SUPPLEMENTARY INFORMATION

SOUTHWESTERN VIRGINIA GAS COMPANY

SCHEDULES OF PROPERTY, PLANT, AND EQUIPMENT

Years Ended June 30, 2022 and 2021

See Independent Auditors' Report

	<u>2022</u>	<u>2021</u>
INTANGIBLE PLANT		
Organization	\$ 1,000	\$ 1,000
Franchise and consent	<u>17,201</u>	<u>17,201</u>
Total intangible plant	<u>18,201</u>	<u>18,201</u>
TRANSMISSION PLANT		
Land and land rights	2,441	2,441
Rights of way	67,634	67,634
Structures and improvements	12,864	12,864
Mains	1,086,650	1,086,650
Measuring and regulating station equipment	15,237	15,237
Communication equipment	<u>34,952</u>	<u>34,952</u>
Total transmission plant	<u>1,219,778</u>	<u>1,219,778</u>
DISTRIBUTION PLANT		
Land and land rights	218,798	293,689
Mains	9,246,299	9,033,188
Measuring and regulating station equipment	545,325	547,941
Services	5,938,293	5,603,349
Meters	534,529	505,479
Meter installations	1,142,810	1,071,947
House regulators	149,879	135,924
Industrial measuring and regulating station equipment	<u>673,654</u>	<u>619,456</u>
Total distribution plant	<u>18,449,587</u>	<u>17,810,973</u>
GENERAL PLANT		
Land and land rights	23,751	23,751
Structures and improvements	252,814	252,814
Office furniture and equipment	177,490	154,200
Transportation equipment	585,295	585,295
Tools, shop, and garage equipment	367,618	369,723
Power operated equipment	144,071	147,121
Communications equipment	<u>64,905</u>	<u>64,061</u>
Total general plant	<u>1,615,944</u>	<u>1,596,965</u>
Construction work in process	<u>3,624,485</u>	<u>261,173</u>
	24,927,995	20,907,090
Accumulated provisions for depreciation	<u>(11,648,056)</u>	<u>(11,109,911)</u>
Book value of property, plant, and equipment	<u>\$ 13,279,939</u>	<u>\$ 9,797,179</u>

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SOUTHWESTERN VIRGINIA GAS COMPANY

SCHEDULES OF OPERATING AND MAINTENANCE EXPENSES

Years Ended June 30, 2022 and 2021

See Independent Auditors' Report

	2022	2021
PRODUCTION EXPENSES		
Purchased gas cost adjustment	\$ 398,348	\$ (125,829)
Natural gas transmission line purchases	8,889,764	5,736,830
Other gas purchases	1,626	2,520
Purchased gas expenses	17,111	16,273
Total production expenses	9,306,849	5,629,794
TRANSMISSION EXPENSES		
Communication system expenses	6,193	5,847
Mains	12,983	11,589
Operation supervision and engineering	12,688	13,198
System control & loan dispatch	16,095	15,381
Other expense	12,479	11,952
Total transmission expenses	60,438	57,967
DISTRIBUTION EXPENSES		
Operation supervision and engineering	79,337	83,290
Distribution load dispatching	14,068	13,415
Mains and services	125,062	120,726
Meter and house regulator	53,170	28,722
Customer installations	3,684	3,058
Customer installations - emergency duty	19,555	18,215
OQ training	96,585	73,241
Rents	2,762	2,682
Other expenses	31,603	30,030
Distribution training	669	629
Total distribution expenses	426,495	374,008
MAINTENANCE EXPENSES		
Maintenance of		
Transmission mains	26,900	47,769
Communication equipment	1,091	1,100
Supervision and engineering	80,851	84,783
Distribution mains	72,328	81,807
Measuring and regulating station equipment	16,527	16,681
Services	73,043	53,806

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SOUTHWESTERN VIRGINIA GAS COMPANY

SCHEDULES OF OPERATING AND MAINTENANCE EXPENSES

Years Ended June 30, 2022 and 2021

See Independent Auditors' Report

	2022	2021
MAINTENANCE EXPENSES (CONTINUED)		
Maintenance of		
Meters and house regulators	41,654	46,928
Other equipment	19	2,314
General plant	30,713	35,643
Supervision & engineer	12,688	13,198
Total maintenance expenses	355,814	384,029
CUSTOMER ACCOUNTS EXPENSES		
Meter reading	42,952	37,400
Customer records and collection	250,335	228,115
Uncollectible accounts	4,548	4,585
Public awareness	59,114	55,353
Demonstrating and selling	20,823	19,844
Total customer accounts expenses	377,772	345,297
ADMINISTRATIVE AND GENERAL EXPENSES		
Administrative and general salaries	310,233	330,215
Lump sum compensation	55,976	221,913
Office supplies and expenses	86,936	75,299
Outside services employed	47,233	39,123
Property insurance	123,191	116,153
Rents	56,247	56,247
Injuries and damages	37,121	28,409
Employee pensions and benefits	290,616	326,170
Franchise requirements	20,000	20,000
Duplicate charges	3,871	7,404
Miscellaneous	72,626	49,473
Total administrative and general expenses	1,104,050	1,270,406
Total operating and maintenance expenses	\$ 11,631,418	\$ 8,061,501

SOUTHWESTERN VIRGINIA GAS COMPANY
SCHEDULES OF TAXES OTHER THAN INCOME TAXES
Years Ended June 30, 2022 and 2021
See Independent Auditors' Report

	<u>2022</u>	<u>2021</u>
Franchise	\$ 1,600	\$ 1,600
Real estate & personal property	86,615	86,714
Payroll	92,370	103,838
Virginia use tax	<u>1,511</u>	<u>618</u>
Total taxes other than income taxes	<u>\$ 182,096</u>	<u>\$ 192,770</u>

EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 6
PAGE 2 OF 2

**SOUTHWESTERN VIRGINIA GAS COMPANY SUBSIDIARY
SEC 10-K REPORT AND 10-Q REPORT**

No 10-K OR 10-Q report filed by applicant.

Schedule 7

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EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 7

SOUTHWESTERN VIRGINIA GAS COMPANY
Comparitive Financial Statements

The public financial reports for Schedule 6 include comparitive data for all schedules.

Schedule 8

EXHIBIT NO.: _____
WITNESS: BJS
SCHEDULE 8

SOUTHWESTERN VIRGINIA GAS COMPANY
CAPITAL STRUCTURE AND COST OF CAPITAL STATEMENT-
PER BOOKS AND AVERAGE
CASE NO. PUE-----

	RATE YEAR
A. CAPITAL STRUCTURE PER BALANCE SHEET (\$)	
Short Term Debt	
Customer Deposits	213,952
Other Current Liabilities	1,098,695
Long-Term Debt	6,841,668
Preferred and Preference Stock	50,000
Common Equity	6,586,993
Other Tax Deferrals	586,023
Other Liabilities	538,250
Total Capitalization	15,915,581
B. CAPITAL STRUCTURE APPROVED FOR RATEMAKING PURPOSES (\$)	
Short Term Debt	42,308
Long-Term Debt	6,828,979
Preferred & Preference Stock	50,000
Common Equity	6,586,993
Total Capitalization	13,508,280
C. CAPITAL STRUCTURE WEIGHTS FOR RATEMAKING PURPOSES (%)	
Short Term Debt	0.31%
Long-Term Debt	50.55%
Preferred & Preference Stock	0.37%
Common Equity	48.76%
Total Capitalization (100%)	100.00%
D. COMPONENT CAPITAL COST RATES (%)	
Short Term Debt	8.00%
Long-Term Debt	6.257%
Preferred & Preference Stock	6.00%
Common Equity (Proposed)	10.50%
E. COMPONENT WEIGHTED COST RATES (%)	
Short Term Debt	0.025%
Long-Term Debt	3.163%
Preferred & Preference Stock	0.022%
Common Equity (Authorized)	5.120%
Weighted Cost of Capital	8.330%

The only balance projected to beginning of rate year is Long Term Debt.

Assumption-End of Test year balances for all other accounts are representative of balance during rate year